Is Now the Right Time to Buy Consumer Discretionary Stocks?

Description

Do rising interest rates and falling bond and stock prices sound familiar? These are some of the observations in the peak of an economic cycle. Last Wednesday, the Bank of Canada raised the target for the overnight interest rate again — this time, by 0.25% to 4.50%. On the positive side, it's going to hold off on any more increases for now.

Namely, the inflation rate has gone done from the June 2022 peak of 8.1% to 6.3% last month. So, the interest rate hikes are supporting disinflation. It means we could be rolling into a contraction phase, in which a recession is a possibility. Indeed, some economists believe Canada will experience a soft-landing recession in the first half of 2023.

Consumer discretionary stocks generally do badly in recessions. Should you avoid them altogether? That said, some have taken a beating over the last 12 months or so and could provide good entry points.

As the **S&P/TSX Capped Consumer Discretionary Index** illustrates, there are a vast number of choices of industries in the sector. Consequently, investors picking different spots will yield very different results. Here are a couple of the largest consumer discretionary constituents of the index.

Restaurant Brands International stock

Although **Restaurant Brands International** (TSX:QSR) is categorized as a consumer discretionary stock, its recent results certainly don't look that way. The business has delivered highly stable results. The stock has been a super performer, delivering total returns of approximately 32% over the last 12 months.

As the chart above displays, the dividend stock does come with volatility. In fact, *Yahoo Finance* indicates its recent beta was one, which means volatility that's similar to the market's.

Although it experienced increased operating costs, Restaurant Brands was still able to generate free cash flow at similar levels as the prior 12-month period. It's also expanding its Burger King and

Popeyes brands in Eastern Europe. As usual, with its franchise model, it's growing its business with little capital expenditure needed.

At $89.18 per share, the stock yields 3.2% and appears to be fairly valued. For a bigger margin of safety, interested investors should wait for a dip of at least 15%.

Magna International stock

Magna International (TSX:MG) is also a consumer discretionary stock, but it is an entirely different business from Restaurant Brands. It takes part in the transition to electric cars. The auto parts stock is down about 14% in the last 12 months. Accounting for the dividends, it has returned roughly -12%.

If you're optimistic about the recessionary situation and have a long-term investment horizon, you might consider a position in Magna stock that appears to be a better value. It is a riskier stock than Restaurant Brands, though, because its earnings are more unpredictable. Yahoo Finance also indicates that MG's recent beta was 1.58, which indicates greater volatility than the market.

In a subsequent economic expansion, the stock can deliver double-digit annualized returns potentially north of 20%.

Should you buy consumer discretionary stocks now?

As the examples show, consumer discretionary stocks can be starkly different because of their underlying businesses.

Generally speaking, it's probably a little early to buy consumer discretionary stocks, as economists expect a recession in Canada in the first half of 2023. Additionally, your actual investment results will depend on your picks, entry points, and exit points.

Which businesses do you think will do well? Aiming to buy at good valuations or with a meaningful margin of safety can boost your long-term returns. Consumer discretionary stocks may also outperform the market in an economic expansion, which will roll around again in the future.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. TSX:MG (Magna International Inc.)
2. TSX:QSR (Restaurant Brands International Inc.)

PARTNER-FEEDS

1. Business Insider
2. Flipboard
3. Koyfin

4. Msn
5. Newscred
6. Quote Media
7. Sharewise
8. Smart News
9. Yahoo CA

PP NOTIFY USER

1. kayng
2. kduncombe

Category

1. Dividend Stocks
2. Investing

Date
2025/08/16
Date Created
2023/01/30
Author
kayng